Draft Modification Report
Interruptible Transportation Charges
Modification Reference Number 0555

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

It is proposed that the Network Code be amended to enable the charging arrangements proposed in Pricing Consultation PC74 to be implemented. That is that the level of transportation charges be reduced in respect of supply points that Transco nominates for interruption on more than 15 days in a particular year (measured from April to March). For each additional day of nominated interruption over 15 days, a transportation charge credit would be available, equivalent to 1/15 of the annual NTS exit capacity and LDZ capacity charges avoided as a result of the interrupted supply point having interruptible rather than firm transportation rights. Transco's existing right to interrupt a supply point for up to 45 days a year, or more for Transco Nominated Interruptible (TNI) supply points, would not be changed.

Details of proposed rules are provided below.

1. **Introduction**

1.1. Contracted interruptible exit capacity remains unchanged at 45-day standard. Sites nominated by Transco as TNI can be interrupted for a greater period.

1.2. All interruptible supply points continue to avoid firm exit capacity charges.

1.3. For each occurrence of nominated interruption beyond 15 days an additional credit will be offered. Transco conducts determination of cumulative occurrences of nominated interruption on a site-specific basis.

1.4. These business rules become effective on 1st October 2002 and refer to additional interruption credits for above 15-day interruption.

2. **Calculation of Payment**

2.1. The credit will be calculated in accordance with Transco's Pricing Methodology as established in PC74.

2.2. The charge quantity will be determined from the supply point registered interruptible exit capacity (SOQ) at the point of interruption multiplied by those qualifying occurrences of interruption in excess of 15 days as specified in sections 3 and 4 but subject to:

2.2.1. The charge quantity of any Partial interruptible site, including shared supply points, being limited to that quantity (kWh rate) of exit capacity tranche(s) that was actually requested by Transco for interruption.

2.2.2. Subject to 2.2.1, such shared supply point tranche(s) charge quantity will, where more than one interruptible shared user holds interruptible exit capacity at the shared supply point, be split by each shared user in ratio to such shared user's interruptible capacity holding as a percentage of the total aggregate shared supply point interruptible capacity.

2.2.3. The charge quantity of any IFA site being limited to that supply point registered interruptible exit capacity net of any firm exit capacity entitlement specified within each site IFA agreement.
2.2.4. The charge quantity of any interruptible NTS CSEP being limited to that quantity (kWh rate) of exit capacity that was actually requested on the day by Transco for interruption.
2.2.5. Subject to 2.2.4, such NTS CSEP charge quantity will, where more than one interruptible user is registered at the NTS CSEP, be split by each user in ratio to such user's interruptible initial (D-1) gas flow nomination as a percentage of the total aggregate interruptible initial (D-1) gas flow nomination for the NTS CSEP.
2.3. For the avoidance of doubt, a shared user's interruptible supply point capacity (SOQ), or such tranche under 2.2.1, will be used for charge quantity purposes, and not the shared supply point aggregate interruptible capacity (SSP SOQ).
2.4. User proposed ratios as alternatives to mechanisms described under 2.2.2 and 2.2.5 will not be allowed.
2.5. Supply point data at the point of interruption will be used for charge calculation purposes.
2.6. Payment constructed from charge quantities determined in accordance with this section 2 will not be the subject of later reconciliation should any component capacity subsequently change prospectively within the formula year.
2.7. The registered shipper at the point of interruption will be the qualifying shipper for receipt of any payment.

3. Count of Interruptible Days

3.1. A count of interruption occurrence will be maintained for each site within each formula year, with each day of interruption representing an increment of 1.
3.2. The count will include such occurrence of qualifying interruption as defined within section 4.
3.3. The count will start from zero on 1st April of each formula year beginning at April 2002
3.4. The count will end on 31st March of each formula year.
3.5. This count will be used solely for determining the level of credit due, if any, for each site where the frequency of nominated interruption exceeds 15 days within any formula year, monitoring of transportation contract interruption will be maintained separately for each gas year.

4. Qualifying Interruption

4.1. The count of qualifying interruptible days under section 3 will increment, but subject to 4.3, where curtailment of gas supply was due to:
4.1.1. Interruption arising from an NTS or LDZ constraint within Transco's transportation system.
4.1.2. Interruption arising for Test purposes as described within Network Code G 6.7.3 (ii)
4.2. The count of qualifying interruptible days under section 3 will not increment where curtailment of gas supply was due to:
4.2.1. Emergency interruption [emergency cessation of gas].
4.2.2. Any form of commercial interruption instigated by a shipper.
4.3. Transco's determination of a site for interruption will increment that sites count of interruptible days under section 3.

4.4. Where Transco has called interruption, a User can request that an alternative site(s) should be interrupted as described in G6.8.2 In such circumstances Transco will, for the purposes of section 3, maintain a count based on the site Transco originally nominated for interruption.

4.5. Failure to interrupt of the Transco proposed site, or shipper proposed alternative site(s), will result in a reduction by 1 (to a minimum of zero) of the site count of interruptible days determined under 4.3, and such that:

4.5.1. no payment will be made for the Transco proposed and shipper accepted site that subsequently fails to interrupt.

4.5.2. no payment will be made for the Transco proposed site where shipper substituted for a matched target volume site that subsequently fails to interrupt.

4.5.3. where multiple sites are substituted by a shipper, the payment(s) made to Transco proposed site(s) will be reduced by that shipper substituted target volume identified as failing to interrupt, with such volume reduction being applied in site highest unit charge rate ranked order.

5. Unit Rate

5.1. The unit rate will be expressed in pence per kWh of peak day capacity and will be the rate as determined by Pricing Methodology PC74.

5.2. NTS and LDZ unit rates will be functions of those NTS and LDZ firm exit capacity rates valid at the point of interruption, and will be site-specific rates based on firm exit capacity avoided and applied to occurrences of qualifying interruption in excess of 15 days.

5.3. Payment constructed from unit rates determined in accordance with this section 5 will not be the subject of later reconciliation should firm NTS or LDZ exit capacity rates, or any peak capacity component contained within such rate calculation, subsequently change prospectively within the formula year.

6. Invoice

6.1. Payment of all credits accrued in a calendar month will be made within the following month.

6.2. Subject to 4.5, Transco will not issue a payment where it has reasonable grounds to believe that such payment is dependent upon the outcome of failure to interrupt investigation. Payment will be released as soon as practically possible should such failure to interrupt be disproved.

7. Information Provision

7.1. Transco will publish the count of interruptible days as specified within section 3 where that supply point count exceeds 12 days, publication will be at an aggregate LDZ or aggregate NTS level. The information in 7.1 will be published on the Transco web site updated on a weekly basis.

8. Transition Rules for formula year 1st April 2002 to 31st March 2003.

8.1. Implementation on 1st October 2002 will not prevent the count of qualifying interruptible days commencing on 1st April 2002.

9. **Removal of TNI & NSL Commodity Discount**

9.1. Payment in respect of interruption exceeding 15 days at a supply point level replaces the existing TNI commodity discount and any potential NSL commodity discount.

9.2. Remove Network Code and Transportation Statement reference to TNI commodity discount. (G 6.5.3 & G 6.5.4)

9.3. Remove Network Code and Transportation statement reference to NSL commodity discount. (G 6.7.14)

As a result of the development workgroup phase of the Modification development the text above has been amended in two areas in response to workgroup discussion. In the first instance section 4.5 has been expanded to provide clarity of how failure to interrupt charges would interact with this proposal. In the second instance the publication of interruption information as specified in section 7 has been amended to reflect a general desire for information to be published at an aggregate LDZ or NTS level. The original proposal having been the information is published for each charging zone.

2. Transco's Opinion

Transco supports implementation of this proposal. Since the proposal was raised Ofgem have decided not to veto Pricing Consultation PC74. This proposal is intended to enable that Pricing Methodology to be applied such that Users may receive additional credits if interruption frequency at exit should increase beyond a 15 day threshold. The methodology for determination of the level of credits and the mode of application is broadly set out in Ofgems proposed GT licence amendments to Transco's Gas Transporter (GT) Licence which, if implemented, Ofgem propose should be effective from 1 April 2002.

3. Extent to which the proposed modification would better facilitate the relevant objectives

The proposal is intended to enable Network Code arrangements to be put in place that reflect Transco's understanding of the transitional, April 2002 to March 2004, interruption arrangements outlined by Ofgem in the recently published proposed modifications to Transco's GT Licence. If these GT Licence proposals are not implemented, or are amended in light of consultation, Transco would expect to reconsider this Modification Proposal in light of the changed circumstances.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

It is not anticipated that daily operation of the system will be impacted by this development.

b) development and capital cost and operating cost implications:

Development costs will be incurred as new software will have to be developed to record and calculate the credit due for each instance of interruption. In addition billing systems may need to be adapted to provide the functionality to deliver an additional ad-hoc charge item. Feasibility studies are underway to establish an efficient solution.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Any additional System Operator costs incurred as a result of implementing this Proposal would be accounted for under the proposed internal cost incentive scheme, as set out in Ofgem's final proposals for the System Operator incentives.

d) analysis of the consequences (if any) this proposal would have on price regulation:

This proposal is consistent with the Pricing Methodology PC74 that has been recently established to enable additional interruption credits to be offered to Users. Failure to implement the Proposal would prevent the calculation of and distribution of exit interruption credits through the Network Code.

Transco considers that the method of calculation of payment, charge rates and count of interruptible days described in the business rules forms an explanation of the Pricing Methodology and as such should be contained in Transco's Transportation statement.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

The implementation of new System Operator Incentives will increase contractual risks to Transco from releasing Interruptible Exit Capacity.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Systems developments will be required to implement this proposal. It is anticipated that these will be delivered at the beginning of December 2002. The new systems will conduct the calculation of credits and initiate the distribution of an ad-hoc invoice as appropriate. It is not anticipated that new computer systems will be required by Users because of the introduction of this proposal.

7. The implications of implementing the Modification Proposal for Users

Users will receive a credit if any interruptible exit site within its portfolio is interrupted on more than 15 days in a 12-month period from 1-April through to 31 March.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

No implications are anticipated.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

An amendment to Transco's GT licence has been proposed to introduce a 'transitional' Exit Capacity incentive that is intended to encourage Transco to Interrupt sites on fewer than 15 occasions in any formula year (April to March). Consequently this Proposal will enable credits to be distributed should interruption at a site exceed the 15 day threshold.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

'Fits' proposed GT licence amendments

Users can obtain additional credits if Transco interrupts a site on more than 15 occasions.

Disadvantages

TNI commodity charge discounts are discontinued.

Additional reporting requirements are required to monitor the extent of interruption.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations are sought.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not required to enable Transco to comply with any legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

This proposal is required to enable implementation of the Pricing Methodology (PC74) that has recently been established to determine the size of credits that may be offered for interruption at a site in excess of 15 days frequency in a formula year.

14. Programme of works required as a consequence of implementing the ModificationProposal

Finalise system design requirements,
Evaluate systems changes,
Design and build systems,
Test new system
Introduce to 'live' environment.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Draft Modification Report circulated - 14 August
Consultation period ends - 5 September
Modification Report issued - 20 September
Ofgem decision expected - Late September
Systems implementation - Early December
Effective date for count of interruption frequency - 1 April 2002

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.
This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

17. Text

[Draft] proposed legal text

SECTION G: SUPPLY POINTS

Add new paragraph 6.1.9 to read as follows:

"6.1.9 In respect of an Interruptible Supply Point the Registered User (or Sharing Registered Users) shall:

(a) not be [required] to pay NTS Exit Capacity Charges and LDZ Capacity Charges;

(b) be entitled to a payment, where in respect of an Interruptible Supply Point Transco requires Interruption on more than 15 Days in any Formula Year, calculated in the manner provided in the Transportation Statement."

Amend paragraph 6.5.3 to read as follows:

"….will specify the number of Days (exceeding 45) on which Transco….in accordance with paragraph 6.7."

Delete text at paragraph 6.5.4 and insert 'Not Used'.

Delete text at paragraph 6.7.14 and insert 'Not Used'

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: